— ADVERTISEMENT —

— ADVER

News
starbulletin.com

Thursday, March 17, 2005

Verizon takeover in doubt

The Public Utilities Commission OKs the move by Carlyle Group, but with stringent conditions

By Dave Segal
dsegal@starbulletin.com

Conditions that the state Public Utilities Commission placed on the Carlyle Group's acquisition of the dominant local phone company, Verizon Hawaii, potentially could kill the $1.65 billion deal.

In a 2-to-1 decision, the commission ended a nine-month application process yesterday by allowing the Washington, D.C.-based private equity firm to buy the state's largest local telephone provider. But a requirement that the Carlyle Group increase its cash investment in the highly leveraged purchase by about $102 million could be enough to break the deal, according to someone close to the situation who declined to be identified.

The PUC, with Commissioner Wayne Kimura dissenting, listed more than a dozen conditions that need to be met for the acquisition to be consummated. Probably the most critical was that the Carlyle Group raise its cash stake in the deal to about $391 million, or 23.7 percent of the purchase price, from $289 million, or 17.5 percent. The change would reduce the Carlyle Group's debt financing

Conditions of purchase

The state Public Utilities Commission approved the Carlyle Group's purchase of Verizon Hawaii, which would be renamed Hawaiian Telcom, yesterday but included some conditions. Here are some of the to 76.3 percent of the purchase from 82.5 percent.

requirements:

» Carlyle must increase how much cash it is investing in Hawaiian Telcom to 23.7 percent of the purchase cost from its proposed 17.5 percent. The change would cost Carlyle about $102 million. This would reduce the debt funding of the $1.65 billion deal to 76.3 percent from 82.5 percent.
» Hawaiian Telcom would be prohibited from paying dividends to investors until it lowers its debt to 65 percent of the purchase price.
» The phone company may not apply for a rate increase until 2009, unless the commission finds there is a compelling need.
» All Hawaiian Telcom customers will receive a credit of up to $20.70 on the date of the deal's closing.
» The commission will investigate service quality six months after Hawaiian Telcom takes over from Verizon.
» Hawaiian Telcom must agree to not sell or transfer its phone directory business without approval from the commission.

Nathan Hokama, local spokesman for the Carlyle Group, said the Carlyle Group was reviewing the commission's order and would not immediately comment.

"They will look at possible next steps," he said.

Chris Ullman, the Carlyle Group's Washington, D.C., spokesman, declined to comment on whether the PUC decision was a deal-breaker.

Verizon Hawaii spokeswoman Ann Nishida was guarded in her comments and issued a statement.

"While we appreciate that the PUC has issued an order approving the transfer of control, there are additional provisions of the order that we must understand fully before we can comment further," she said.

Among the conditions that the PUC issued in a 94-page order was the stipulation that Hawaiian Telcom, which would be the name of the new company, be prohibited from paying any dividends to investors until the company lowers its debt to 65 percent of the purchase price. Other conditions are that Hawaiian Telcom must address concerns of competitor Oceanic Time Warner Cable; the PUC can investigate service quality six months after Hawaiian Telcom takes over from Verizon; and Hawaiian Telcom must agree not to sell or transfer its phone directory business without approval from the commission.

The PUC also included in its final order an agreement between state consumer advocate John Cole and Hawaiian Telcom that the new company not apply for a rate increase until 2009, unless the commission finds there is a compelling need. All Hawaiian Telcom customers must receive a one-time bill credit of up to $20.70 on the date of the deal's closing.

The commission also said the seller, Verizon Communications Inc., can keep the surplus from the Verizon Hawaii pension plan, against union objections. The money would be used to fund benefits for more than 1,300 former and retired Verizon Hawaii employees.

Kimura, the lone dissenting commissioner, said in a written decision that he opposed the deal for not being in the public interest because of potential risks.

"The proposed transfer of control does not seem to present an improvement over the finances and services of the existing Verizon Hawaii ownership," he wrote. "I believe that the components of the transaction impose new and substantial risks on residential, commercial, retail and wholesale ratepayers statewide -- now and for many years to come."

The Carlyle Group, which manages $25 billion on behalf of its investors, is seeking to buy Verizon Hawaii, Verizon Long Distance, Verizon Online and Verizon Information Services. Verizon Wireless operations and assets are not included in the sale. Verizon Communications will retain two units in the state that provide services for the federal government: Verizon Federal Network Systems and Verizon Federal Inc.

Verizon Hawaii has about 1,700 employees and 707,000 access lines.

Pat Bustamante, president and chief operating officer of Pacific LightNet Communications, said he was pleased that the commission had adopted the consumer advocate's suggestions. Pacific LightNet, a telephone services and data services provider, depends on Verizon's networks to complete calls.

"John Cole with the consumer advocate department has done an excellent job in analyzing the benefits and potential pitfalls that could affect the services that are ultimately delivered to consumers in Hawaii," Bustamante said. "Looking at this document shows me that there's definitely some stipulation (the commission has) written into it to help protect the interest of the community from that standpoint."

If the Carlyle Group wants to proceed with the deal, it could go back to Verizon Hawaii with a restructured offer, appeal the PUC's decision or go to court. The Carlyle Group also can walk away because the deal with Verizon Hawaii was contingent upon the Carlyle Group's approval of the PUC decision.

Commission Chairman Carlito Caliboso and Commissioner Janet Kawelo approved the deal.

Public Utilities Commission
www.hawaii.gov/budget/puc/

Verizon Communications Inc.
www.verizon.com/

E-MAIL THIS ARTICLE | | | PRINTER-FRIENDLY VERSION
E-mail to City Desk

BACK TO TOP

Text Site Directory:
[News] [Business] [Features] [Sports] [Editorial] [Do It Electric!]
[Classified Ads] [Search] [Subscribe] [Info] [Letter to Editor]
[Feedback]

© Honolulu Star-Bulletin -- http://starbulletin.com

— ADVERTISEMENT —

Free Career Test
Considering a career change? Take this simple test to find your true talent and matching colleges. Start your future today....

Click Here